Canadian Grain Commission
Commission canadienne des grains

Quarterly Financial Report:

Statement Outlining Results, Risks and Significant Changes in Operations, Personnel and Programs (Unaudited)

For the Period ended September 30, 2013

Canada

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1. Introduction

This quarterly financial report should be read in conjunction with the *Main Estimates* and *Supplementary Estimates*. It has been prepared by Canadian Grain Commission (CGC) management as required by section 65.1 of the *Financial Administration Act* and is in the form and manner prescribed by the Treasury Board Accounting Standard 1.3. This quarterly report has not been subject to an external audit or review.

1.1 Authority, Mandate and Program Activities

The Canadian Grain Commission was established in 1912 and is the federal government agency responsible for administering the provisions of the *Canada Grain Act* (CGA).

The CGC's mandate as set out in the CGA is to, "in the interests of the grain producers, establish and maintain standards of quality for Canadian grain and regulate grain handling in Canada, to ensure a dependable commodity for domestic and export markets."

The CGC's vision is to be "A leader in delivering excellence and innovation in grain quality and quantity assurance, research, and producer protection." The CGC reports to Parliament through the Minister of Agriculture and Agri-Food.

In order to effectively pursue its mandate, the CGC aims to achieve the following strategic outcome: **Canada's grain is safe, reliable and marketable and Canadian grain producers are protected**.

The CGC's Program Alignment Architecture has five programs that each contribute to making progress to the sole strategic outcome. The programs are:

- Quality Assurance Program,
- Quantity Assurance Program,
- Grain Quality Research Program,
- Producer Protection Program, and
- Internal Services.

Further details on the CGC's authority, mandate and program activities may be found in the *Report on Plans and Priorities* and the *Main Estimates*.

1.2 Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting (modified cash) and a special purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities. The accompanying Statement of Budgetary Authorities compares the Department's spending authorities granted by Parliament to those used by the department. Information in the Statement of Budgetary Authorities is consistent with that in the *Main Estimates* and *Supplementary Estimates*.

The authority of Parliament is required before moneys can be spent by the Government. Approvals are given in the form of annually approved limits through *Appropriations Acts* or through legislation in the form of statutory spending for specific purposes.

As part of the Parliamentary business of supply, the Main Estimates must be tabled in Parliament on or before March 1 preceding the new fiscal year. Budget 2012 was tabled in Parliament on March 29, after the tabling of the Main Estimates on February 28, 2012. As a result, the measures announced in Budget 2012 could not be reflected in the 2012-13 Main Estimates.

In fiscal year 2012-13, frozen allotments were established by Treasury Board authority in departmental votes to prohibit the spending of funds already identified as savings measures in Budget 2012. In 2013-14, the changes to departmental authorities were reflected in the 2013-14 Main Estimates tabled in Parliament.

The CGC uses the full accrual method of accounting to prepare and present its annual departmental financial statements included in the *Departmental Performance Reports.* However, the spending authorities voted by Parliament remain on an expenditure basis (modified cash) of accounting.

1.3 CGC Financial Structure

A revolving fund was set up for the CGC in 1995 with the expectation that the CGC would be largely self-funded through fees for service. However, prior to August 1, 2013, CGC user fees had not increased since 1991 despite the fact that operating costs had continually increased. As a result, overall cost recovery had fallen from approximately 90 percent in the early 1990s to between 50 and 60 percent in the past decade. The CGC's falling cost recovery level caused the CGC to rely on ad hoc government appropriation since 1999 to fund operations on an annual basis.

The CGC funding structure is based on budgetary authorities that are comprised of both statutory and voted (non-statutory) authorities. The statutory authorities include employee benefit plan authority for appropriation funded personnel costs and the CGC revolving fund authority which allows the CGC to re-spend fees that it has collected. The voted authority is Vote 30 – Program Expenditures that includes annual appropriation authority and any ad hoc appropriation authority for the fiscal year.

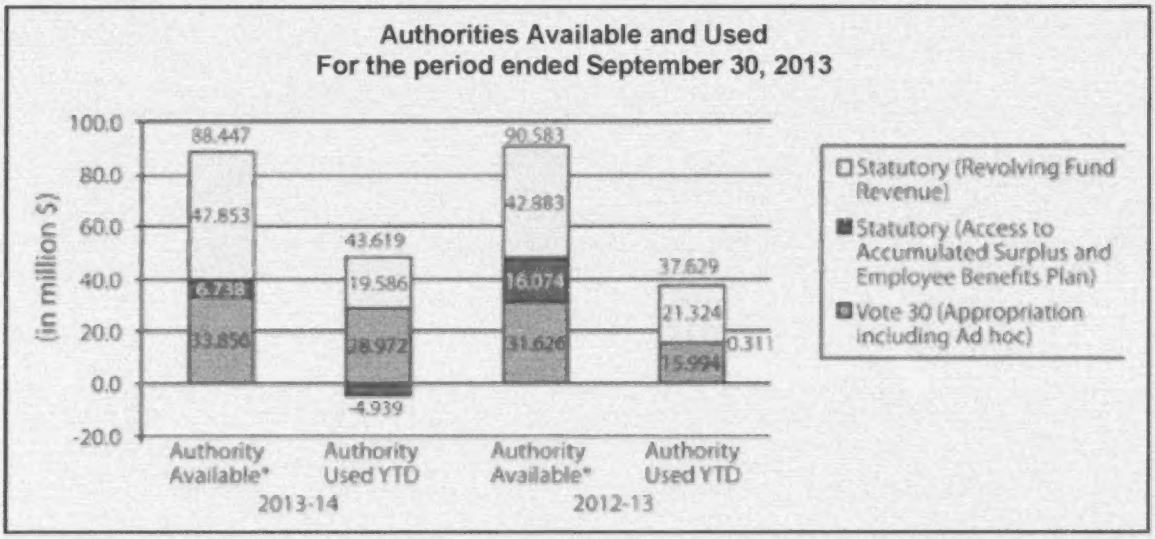
In the fall of 2012, the CGC initiated a process to modernize user fees to align with amendments to the *Canada Grain Act* introduced in Parliament as part of Bill C-45. Bill C-45 received Royal Assent on December 14, 2012. Amended legislation and updated user fees came into force concurrently on August 1, 2013 and will eliminate the need for annual ad hoc funding going forward.

Fiscal year 2013-14 is a transition year for the CGC. The CGC implemented its sustainable funding model on August 1, 2013. Planned spending for fiscal year 2014-15 is based on operations under an amended *CGA* and updated user fees. It is anticipated the CGC's planned spending will stabilize at approximately $59.41 million (funded by annual appropriation of $5.42 million and annual user fees revenue of approximately

$53.99 million). The CGC will recover 90% of its costs through user fees. User fees will increase based on inflation as published in its user fee publication. It is anticipated planned FTEs will stabilize at 404 by the end of fiscal year 2013-14.

2. Highlights of Fiscal Year to Date

This section highlights any significant items that affected the year-to-date results and/or contributed to the net change in resources available for the year and actual expenditures and should be read in conjunction with the *Statement of Budgetary Authorities* and the *Departmental Budgetary Expenditures by Standard Object* which can be found at the end of this report.



* Authority available based on amounts approved through the Estimates process. Amounts detailed in Statement of Authorities.

2.1 Authority Available Analysis

As reflected in the *Statement of Budgetary Authorities*, the department's total authority available for use (net of Revolving Fund revenue) in the fiscal year as at September 30, 2013 is $40.6 million, as compared to $47.7 million as at September 30, 2012. The decrease of 14.9% ($7.1 million) can be attributed to transition of the CGC to a sustainable funding model on August 1, 2013 resulting in the following changes in the CGC funding source elements:

1. Ad hoc appropriation has increased by $2.2 million over the same period last year due to:
    a. an increase of $12.2 million in its voted appropriations to support work force adjustment obligations with the implementation of amendments to the *Canada Grain Act*. The CGC received a total of $15.2 million with $2.9 million of this amount to support the Employee Benefit Plan amount, and

b. a decrease of $10.0 million in the CGC's ad hoc appropriation authority for 2013-14. Budget 2012 identified ad hoc appropriation authority of $16.8 million for 2013-14 where it had identified ad hoc appropriation of $26.8 million for 2012-13.

2. The CGC access to surplus decreased $12.3 million over the same period last year. The CGC was provided approval to access up to $3.2 million of its accumulated surplus to support its operations for 2013-14. Budget 2012 identified that the CGC should seek authority to access a portion of its accumulated surplus to support its operations in the amount of $15.5 million for 2012-13.

3. Employee Benefit Plan increased $2.9 million over the same period last year due to receipt of $15.2 million to support work force adjustment obligations with the implementation of amendments to the *Canada Grain Act*. $12.2 million of this amount was to support the work force adjustments payments to employees affected by legislative change.

Total available for use reflected in the *Departmental Budgetary Expenditures by Standard Object* differs from the revolving fund gross revenues as stated in both *Main Estimates* and the *Statement of Budgetary Authorities* due to the differences in budgetary authorities and planned spending. Planned spending forecasts re-spendable revenues of grain volumes handled, while Main Estimates reflect authority limit to re-spend revenue.

With the implementation of revised user fees to support its sustainable funding model, the CGC forecasts an increase of $4.9 million in its revolving fund gross revenues authorities. This increase does not affect the change in the CGC budgetary authorities.

2.2 Authority Used Analysis

As reflected in the *Departmental Budgetary Expenditures by Standard Object*, the department's total budgetary expenditures in the quarter ended September 30, 2013 is $15.7 million, as compared to $9.5 million as at the quarter ended September 30, 2012. The increase of 64.5% ($6.1 million) in total budgetary expenditures can be attributed to an increase in use of its appropriation funding to cover costs specific to work force adjustment expenditures. Revenues received in the quarter ended September 30, 2013 are consistent with revenues received in the quarter ended September 30, 2012.

Total expenditures in the quarter ended September 30, 2013 are $24.6 million as compared to $18.2 million for the quarter ended September 30, 2012. The increase of 34.8% ($6.4 million) in quarter 2 is mostly attributed to the following significant variances:

1. Personnel expenditures in quarter 2 increased by 45.7% ($6.7 million) as compared to the same quarter last fiscal year. Expenditures related to ongoing salaries

reduced by 5.1% ($0.7 million) while expenditures related to work force adjustment obligations of employees who have departed the CGC in the second quarter increased by 3,132.7% ($7.8 million) for the same quarter last year. Overtime costs were reduced by 44.2% ($0.4 million) over the same quarter last year due to staff availability; and

2. Acquisition of machinery and equipment expenditures in quarter 2 decreased by 53.6% (0.4 million) as compared to the same quarter last year due the focus on the work force adjustment process and fewer people available to coordinate the purchase of machinery and equipment.

In 2013-14, the department's total budgetary expenditures year to date is $24.0 million, as compared to $16.3 million for the same period last year. This year to date increase of 47.4% ($7.7 million) can be attributed to a reduction in revenues and an increase in expenditures over the same period last year. The overall decrease in revenues of 8.2% (1.7 million) can be attributed to handling lower grain volumes during the first quarter of the fiscal year. With lower revenues, the CGC relied on additional appropriation to fund its expenditures.

Total expenditures year to date are $43.6 million as compared to $37.6 million for the same period last fiscal year. The increase of 15.9% ($6.0 million) year to date is mostly attributed to the following significant variances:

1. Personnel expenditures to date increased by 21.0% ($6.5 million) as compared to the same period last fiscal year. Expenditures related to ongoing salaries reduced by 8.8% ($2.5 million) while expenditures related to work force adjustment obligations of employees who have departed the CGC in this fiscal year increased by 1,852.4% ($9.6 million) over the same period last fiscal year. Overtime costs were reduced by 29.7% ($0.6 million) over the same period last fiscal year due to staff availability;

2. Travel and communication expenditures year to date have decreased by 16.8% ($0.3 million) as compared to the same period last year due to the reduction in employee travel through increased use of teleconferencing, videoconferencing and telepresence technology, and

3. Acquisition of machinery and equipment expenditures year to date have decreased by 33.3% (0.3 million) as compared to the period last year due to the focus on the work force adjustment process and fewer people available to coordinate the purchase of machinery and equipment.

3. Risks and Uncertainties

The CGC receives funding through both voted appropriations and fees related to the handling of grain. Service fee revenue is largely based on grain volumes handled—a volume which fluctuates from year to year. The CGC revolving fund is utilized as effectively as possible, including planning for and accommodating a potential 20 percent swing in projected grain volumes during budgeting. The annual budget is also re-profiled through the year to deal with shifting needs and priorities.

Legislation to amend the *Canada Grain Act* was introduced as part of Bill C-45, the *Jobs and Growth Act, 2012*, in October, 2012. Bill C-45 received royal assent on December 14, 2012. Most of the legislative amendments came into-force on August 1, 2013. On November 1, 2012, the CGC launched consultations on updated CGC user fees that reflect an updated CGA and streamlined CGC operations. Updated user fees took effect August 1, 2013. Updated user fees will eliminate the CGC's dependence on annual ad hoc funding and create a more stable environment for integrated people and business management. A stable funding environment will reduce overall organizational risk and allow the CGC to continue to successfully deliver its programs and deliver upon its strategic outcome.

4. Significant Changes to Operations, Personnel and Programs

During the last quarter, the CGC focused efforts on adjusting the CGC's workforce, organizational design and operations in response to both legislative amendments and restructured user fees. These changes have resulted in significant reductions of CGC staff and the transformation of services delivered as well as a reorganized structure for the CGC.

Going forward, planned spending will stabilize at approximately $60 million in 2014-15. This includes $5.4 million from annual appropriation and projected spending of approximately $53.1 million of revenue earned through user fees as adjusted for inflation. Planned human resource requirements will decrease from approximately 731 full time equivalents (FTEs) (as at March 31, 2013) to 404 FTEs by the end of fiscal year 2013-14. The legislative amendments do not impact the CGC's strategic outcome, program alignment architecture, or the program expected results.

5. Budget 2012 Implementation

This section provides an overview of the savings measures announced in Budget 2012 that will be implemented in order to refocus government and programs; make it easier for Canadians and businesses to deal with their government; and, modernize and reduce the back office.

The CGC is unaffected by the savings measures as announced in Budget 2012.

Another measure referenced in Budget 2012 includes funding to support improving conditions for business investment; Budget 2012 provided $44.0 million over 2 years for the CGC to transition to a sustainable funding model.

Approved by:

Elwin Hermanson
Chief Commissioner
Winnipeg, Manitoba
November 25, 2013

Cheryl Blahey
Chief Financial Officer
Winnipeg, Manitoba
November 20, 2013

Statements of Budgetary Authorities (Unaudited)

For the period ended September 30, 2013

(in thousands of dollars)	Fiscal Year 2013-14 Total available for use for the year ending March 31, 2014*	Used during the quarter ended September 30, 2013	Year-to date at quarter end	Fiscal Year 2012-13 Total available for use for the year ending March 31, 2013*	Used during the quarter ended September 30, 2012	Year-to date at quarter end
Vote 30						
Appropriation including Ad hoc	**$33,856**	**$ 20,282**	**$ 28,972**	**$31,626**	**$ 9,367**	**$ 15,994**
Statutory Authorities:						
Revolving Fund Gross Expenditures	51,053	2,644	12,472	58,335	8,719	21,324
Revolving Fund Gross Revenues	(47,853)	(8,934)	(19,586)	(42,883)	(8,719)	(21,324)
Revolving Fund Net Expenditures	**$ 3,200**	**$ (6,289)**	**$ (7,113)**	**$ 15,452**	**$ 0**	**$ 0**
Employee Benefit Plan	3,538	1,670	2,174	622	156	311
Total Statutory Authorities	6,738	(4,620)	(4,939)	16,074	156	311
Total Budgetary Authorities	**$ 40,594**	**$ 15,662**	**$ 24,033**	**$ 47,700**	**$ 9,523**	**$ 16,305**

**** Includes only Authorities available for use and granted by Parliament at quarter-end***

Due to rounding, totals may not add to totals shown.

Departmental Budgetary Expenditures by Standard Object (unaudited)

For the period ended September 30, 2013

(in thousands of dollars)	Fiscal Year 2013-14			Fiscal Year 2012-13		
	Total available for use for the year ending March 31, 2014*	Expended during the quarter ended June 30, 2013	Year-to date at quarter end	Total available for use for the year ending March 31, 2013*	Expended during the quarter ended September 30, 2012	Year-to date at quarter end
Expenditures:						
Personnel	$ 64,705	$ 21,482	$ 37,573	$ 70,426	$ 14,746	$ 31,057
Transportation and communication	3,389	712	1,363	3,714	810	1,638
Information	192	45	79	189	62	83
Professional and special services	3,101	479	811	2,333	434	1,029
Rentals	4,978	1,240	2,711	5,777	1,174	2,548
Repairs and Maintenance	898	125	213	288	176	127
Utilities, materials and supplies	1,550	185	317	709	133	313
Acquisition of machinery and equipment	3,318	327	552	1,875	706	827
Other Subsidies and payments	1,303	0	0	15	1	7
Total Expenditures	**$ 83,434**	**$ 24,596**	**$ 43,619**	**$ 85,326**	**$ 18,242**	**$ 37,629**
Revolving Fund Revenue (To be credited to Vote)	**(42,840)**	**(8,934)**	**(19,586)**	**(37,626)**	**(8,719)**	**(21,324)**
Total Budgetary Authorities	**$ 40,594**	**$ 15,662**	**$ 24,033**	**$ 47,700**	**$ 9,523**	**$ 16,305**

**** Includes only Authorities available for use and granted by Parliament at quarter-end***

Due to rounding, totals may not add to totals shown.